Office of the
Attorney General

Buying a Home

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State of Idaho
Office of Attorney General
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Dear Fellow Idahoan:

Your home is probably the most valuable asset you will own. As such, it is important to educate yourself about the home-buying process and how you can protect your home from loss due to deceptive business practices.

Mortgage fraud has invaded our state, offering empty promises and stealing the dream of home ownership. Idaho and federal laws offer some protections against these financially devastating schemes. However, prevention remains the best strategy for combating unlawful activities, and you can best protect yourself by understanding your rights and obligations as a homeowner.

If you are having financial difficulties and are at risk of foreclosure, my office has prepared a separate manual *Foreclosure Prevention and Foreclosure Scams: How to Tell the Difference*. It is available on my website and from the Consumer Protection Division.

The Appendices to this manual include resources for finding information and assistance and a glossary of terms commonly used in the mortgage industry. In addition to contacting a private attorney to discuss any available legal remedies, you can report deceptive mortgage schemes and deceptive mortgage advertising to my Consumer Protection Division. Complaint forms are available on my website at www.ag.idaho.gov or by calling (208) 334-2424 or, toll-free in Idaho, (800) 432-3545.

Sincerely,

LAWRENCE G. WASDEN
Attorney General

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THE HOME-BUYING PROCESS

Buying a home requires planning, sacrifice and commitment. You are legally obligating yourself to repay a debt that, in some cases, can extend up to 50 years. If you assume responsibility for a mortgage today that you cannot pay tomorrow, you will face significant legal and financial consequences.

Do not rely upon your real estate agent, your mortgage broker, mortgage loan originators or anyone else “in the business” to advise you on whether you can afford a $300,000 loan. Only you know what you can pay every month. If you have to juggle your finances, live paycheck to paycheck or borrow money from your parents to buy or keep your “dream home,” you probably should reevaluate your dreams. Home ownership is not an entitlement or even a possibility for everyone.

If you believe you are ready to buy a home, you need to know your rights and your responsibilities. This is not a decision you want to rush. Take the time to learn the language of the mortgage lending industry and become an informed consumer.

FINANCIAL READINESS

Check your credit before shopping for a home. If your credit history is poor, you are a high-risk debtor, and you will not qualify for traditional loan products. Lenders have tightened their lending criteria, and many non-traditional or subprime loans are no longer available.

You should focus on improving your credit before jumping into a costly and unsustainable mortgage. For a free copy of your credit report from Equifax, Experian and TransUnion, visit www.annualcreditreport.com. To learn more about managing your credit rating, read the Attorney General's free handbook *Credit and Debt*. It is available at www.ag.idaho.gov or by calling the Consumer Protection Division.

Credit Scores

Your credit score represents your credit-worthiness. It is a number based on the information in your credit report that helps lenders predict how likely you are to meet the terms of your loan. A higher score means you will receive better loan terms, such as a lower interest rate. A low score may prevent you from obtaining a loan or result in a loan with unfavorable terms.

Every credit reporting agency calculates your score differently. Generally, however, when lenders talk about your credit score, they mean the Fair Isaac Corporation's FICO® score. FICO® scores range from 300-850, with most scores falling between 600 and 800.

If you have a FICO® credit score of above 700, you are, according to most lenders, financially healthy. A score below 600 makes you a high risk to lenders.

Calculating What You Can Afford

If your credit is good, your next decision is how much of a down payment and a monthly payment you can afford. Be realistic. This is not the time to consider potential salary raises that you might not receive or a spouse's future income if he or she graduates from college. You should have at least 20% of the home's purchase price available for a down payment and commit no more than 30% of your gross monthly income to your mortgage payment. Although options exist for individuals who do not have a 20% down payment, this is the suggested standard.

The Federal Housing Administration offers several types of calculators to help you calculate how large a mortgage you can afford and whether you should rent or buy. The "Fixed Mortgage Loan" calculator helps you determine your down payment, monthly payment and closing costs. Visit www.fhaoutreach.gov for information.

Keep in mind that you will need more than the down payment to close on a mortgage loan. There are thousands of dollars of costs and fees along the way that you are required to pay.

PRE-QUALIFICATION

After you know how much you can afford, you can shop for a lender. Talk to someone at your current bank or credit union or visit several financial institutions to find the best loan terms. If you use a mortgage loan originator, be sure he or she is licensed by the Idaho Department of Finance.

Prequalification for a mortgage loan is based on the information you submit to your loan officer. Ultimately, the decision on whether to lend you money is up to the lender's underwriter. An underwriter is responsible for analyzing a loan application and deciding whether the lender should assume the risk by loaning money to the potential borrower.

A lender may not approve a higher-priced mortgage loan (i.e., interest only, adjustable rate or pay option ARM) without regard to the consumer's ability to repay the loan. To determine your ability-to-repay a loan, the lender verifies your income, employment status, mortgage payment, debt obligations, debt-to-income ratio and, among other things, your credit history. (In the near future, federal regulations will extend the "ability to repay" requirement to all consumer-purpose mortgages except for home equity loans, timeshare plans and reverse mortgages.)

If you can get pre-qualified for a loan before you begin looking for a house, you can limit your shopping choices and avoid potential rejection by the underwriter later.

SHOPPING FOR A HOME

Once you are pre-qualified, you can shop for your new home. You do not need to work with a real estate agent, but doing so makes the search process easier. An agent can pre-screen houses, easily access properties, negotiate with other parties on your behalf, prepare the necessary paperwork, facilitate earnest money transactions, ensure purchase contingencies are fulfilled before closing (repairs, carpet cleaning, etc.), work with the title agent, attend the closing and provide you with any post-sale assistance that you require. If you do work with a realtor, make sure the person is licensed with the Idaho Real Estate Commission (www.irec.idaho.gov) and keep in mind that if you are unhappy with your realtor, nothing prevents you from finding a different one. Never let a realtor "talk you into" a sale or rush you into making a decision. After all, your realtor isn't the one who has to live in the home or make the monthly payments for the next 30 years.

GET A HOME INSPECTION

Before agreeing to purchase a home, have an inspector thoroughly inspect the entire property and prepare a written report for your review. Inspections are not cheap, but they alert you to potential problems that could cost you thousands of dollars in repairs down the road.

A seller is not required to disclose every building defect, and a real estate agent is not trained to recognize structural problems. Furthermore, the seller may be completely unaware of that leaky pipe in the crawlspace or the nonconforming electrical work the prior owner did. Idaho Code § 55-2508 provides a very limited list of the items that a seller must disclose, assuming the seller has knowledge of the item. An inspector is trained to spot nonconformities and can recognize where someone diverted from building standards.

Idaho does not license home inspectors. However, the International Association of Certified Home Inspectors (www.nachi.org) or the American Society of Home Inspectors (www.ashi.org) can refer you to a local inspector with proper training and experience.

CLOSING

When the underwriter is satisfied that you qualify for the loan, he or she will approve the loan and clear you to close. A closing date and title company is selected. The title company makes sure nothing impairs the property, such as a third-party lien, which could prevent you from obtaining clear title.

Closing on a house is very expensive. Although it depends on your specific situation, you may have to pay the following settlement costs and fees at closing:

- Loan application fee;
- Credit report fee;
- Processing and document preparation fees;
- Appraisal fee;
- Inspection fee;
- Prepaid interest, depending on the day of the month you close;
- Insurance escrow;

- Private mortgage insurance premium;
- Title insurance;
- Title company closing fee;
- Recording fees;
- Taxes;
- Flood certification fee; and
- Home association fees.

The Federal Reserve Board provides a helpful brochure about settlement costs and a worksheet for estimating your settlement costs. The brochure and worksheet are available at: www.federalreserve.gov.

On the day of closing, the lender may check your credit history one last time to make sure you have not incurred any new debts that affect your qualification status. Assuming everything is in order, you then meet with a title agent and sign the necessary paperwork. Never let the agent rush you through the closing process. Demand that your questions are answered, and if the terms of the loan are different from what you originally agreed, do not sign the documents. Never obligate yourself to a contract that you do not understand or that you know you cannot afford.

FINDING THE RIGHT LOAN FOR YOU

At one time, potential homeowners could get one of three types of mortgage loans: (1) a conventional loan; (2) a Federal Housing Administration (FHA) loan; or (3) a Veterans Administration (VA) loan. Today, a smorgasbord of loan options exists.

INTEREST RATES: FIXED OR ADJUSTABLE

Mortgage loans have fixed or adjustable interest rates. A fixed rate mortgage is one in which the interest rate remains the same over the life of the loan. Fixed rate mortgages are available for terms of up to 50 years.

An adjustable rate mortgage has a variable interest rate that typically starts very low for two to three years. When the introductory or "teaser" rate ends, the rate goes up, sometimes tripling the borrower's monthly payment.

> **Bottom line:** an initial low APR can be attractive, but you might experience payment "shock" when the interest rate adjusts. A fixed rate for the life of the loan provides financial stability because your payment will never increase. (Keep in mind, however, that the lender can adjust your payment up or down to ensure your escrow account remains properly funded.)

TYPES OF LOANS

Bridge Loan

If a seller wants to buy a new home but has yet to sell his old home, the seller can apply for a bridge loan to help cover part of the cost. The seller's current home is used as collateral.

> **Bottom line:** if you need to move quickly (e.g., relocating for a job) and don't have time to wait for your old home to sell, a bridge loan is a possibility. However, you need to have enough equity in your old home and a good credit history to qualify for a bridge loan. Also, making two mortgage payments can be financially difficult.

Conventional Loan

A conventional loan is one that the federal government does not guarantee or insure under the VA, the FHA or the Rural

Housing Service (RHS) of the U.S. Department of Agriculture. Most lenders sell their loans to a secondary market in order to get full payment quickly. The new owner of the loan then collects payments from you.

Conventional loans are either conforming or nonconforming, which means either they follow the lending terms set by Freddie Mac or Fannie Mae or they do not. For the past three years, the loan limit for a first-time conventional conforming loan has remained at $417,000 for a single-family residence.

> **Bottom Line:** If you have good credit and at least a 20% down payment, you might qualify for a conventional loan. Make sure to negotiate a low, fixed-interest loan for the shortest term possible, preferably 10 years, to avoid paying more interest. If you need a lower monthly payment, you can increase the term to 15, 20 or 30 years. However, you will pay substantially more interest.

Federal Housing Administration Loan

The federal government insures FHA loans through mortgage insurance, which is financed in the loan. First-time homebuyers typically qualify for an FHA loan because they can have less than a 5% down payment. You must have at least a two-year employment history, a steady income and a minimum credit score of 620 or no credit history. A prior bankruptcy is acceptable if the discharge occurred at least two years ago, and you have perfect credit now.

The maximum monthly mortgage payment that you can afford is calculated by multiplying your monthly gross pay by 30%. For example, if you make $5,000 per month before taxes, your monthly mortgage payment cannot exceed $1,500 ($5,000 x .30).

> **Bottom Line:** FHA loans are attractive for first-time homebuyers. However, keep your expectations realistic. Even though the lender might approve you for the maximum loan amount based on your income, that does not mean you can afford such a mortgage. Only you know if you can comfortably afford to pay $1,500 when, after taxes, your paycheck is substantially less than $5,000.

Interest Only Loan (I/O)

An interest-only loan gives you, for a limited period, the option of paying only the accumulated interest on the loan. I/O loans make your monthly payments lower, but if you do not make principal payments, the principal balance will not decrease during the interest-only term. Some loans require you to make a large balloon payment at the end of the interest-only term. Also, when the interest-only term ends, your payment increases significantly because the principal has not decreased.

> **Bottom Line:** Paying only the interest on a mortgage keeps your payment low for a little while, but the benefit of this low payment is short-lived. Once the interest-only term ends, the payment increases substantially because now you must pay both the interest and the principal, which never decreased during the interest-only term. Unless your home skyrocketed in value (highly unlikely), you also have no equity in your property. Any loan that excludes a principal payment each month can have devastating consequences.

Mortgage Buydowns

If you want a lower monthly payment for the first two or three years of your mortgage, you can choose a mortgage interest rate buydown. To obtain the lower interest rate, you or the seller pay the difference between the future rate and the lowered rate.

For example, in a "3-2-1" mortgage buydown where the balance is $300,000 and the interest rate is 6% for 30 years, you or the seller can make a cash payment of $13,080 to lower the interest rate to 3% during the first year, 4% during the second year and 5% during the third year. The rate increases to 6% during years four through 30. The reduced interest rates save you $13,080 over three years. You also can select a 2-1 mortgage buydown.

> **Bottom line:** Buydowns offer a lower interest rate and a lower payment that increases gradually over the first few years of the loan. If you expect your income to increase, or if a spouse is still in school and not yet employed, a buydown, assuming you have the cash available, is an option. Reputable lenders also require a 10% down payment on a 3-2-1 buydown and a 5% down payment on a 2-1 buydown.

Pay Option Arm Loans ("Pick-A-Payment" Loans)

Pay option adjustable rate mortgage ("ARM") loans have interest rates that increase periodically. You can select from different payment options, including a (1) fully amortizing 30-year payment; (2) fully amortizing 15-year payment; (3) interest-only payment; or (4) minimum payment. The most popular ARM has been the minimum payment ARM, which involves a low monthly payment at an introductory rate for a brief period of time. After that, the rate is adjusted annually, and the payment amount increases.

> **Bottom line:** Pay option ARMs are one of the most destructive loans available today because most people elect (or can only afford) to pay the minimum monthly amount. This results in negative amortization, meaning

> the amount owed on the loan increases over time, rather than decreases. When a pay option loan is recast at the end of the introductory period, the result will be an extremely higher payment that you may not be able to afford.

Piggyback Loans

A piggyback loan involves more than one mortgage loan. The mortgages can have adjustable, fixed or a combination interest rate. Piggyback loans come in different forms, but the most popular are the 80-10-10 loan, the 80-20 loan and the 80-15-5 loan. The first lender finances 80% of the home's purchase price. The second lender finances between 10% and 20% of the purchase price and the third lender finances between 5% and 10% of the purchase price. The second and third lenders, who are financing only a small part of the home's price and share more of the risk, likely will charge you a higher interest rate to compensate for that risk.

> **Bottom line:** Piggyback loans allow you to qualify for a home loan without the standard 20% down payment. They also make it easier to qualify for "more home." However, simply because three different lenders are willing to loan you enough to buy a $400,000 home does not mean you can afford to buy that home. Furthermore, most piggyback loans attach a large balloon payment at the end of the loan term that you might not be able to pay unless you set aside money each month. Having three mortgages also makes it impossible to qualify for a home equity loan if the need for one arises.

Reverse Mortgages

A reverse mortgage is available to homeowners over 62 who have equity in their homes. The loan allows a homeowner to convert a portion of the equity into cash. However, unlike a traditional home equity loan or second mortgage, the owner has no obligation to repay the loan as long as the house is the borrower's primary residence.

> **Bottom Line:** The decision to take out a reverse mortgage is complicated. The Attorney General recommends that you consult with a HUD-approved counselor before making any commitments or signing any documents. The Department of Housing and Urban Development (www.hud.gov), the National Counseling Network (www.hecmresources.org) and the American Association of Retired Persons (www.aarp.org) have helpful information about reverse mortgages.

REQUIRED DISCLOSURES & LEGAL SAFEGUARDS

During the loan application and approval process, you will receive a number of disclosures. Before you commit to any loan, read all of the documents your loan broker and your lender give to you. After you select your loan product, but before you sign any documents, read all of the disclosures and make sure all of your questions are answered. If you do not understand the terms of the loan, do not sign anything.

A number of federal laws and regulations require lenders to provide prospective borrowers with detailed written disclosures. Because these disclosures are specific to the type of loan you are getting, you should review the laws and regulations relevant to your loan. The federal government provides information regarding the required disclosures on its website at www.usa.gov.

THE REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)

The Real Estate Settlement Procedures Act (RESPA) was enacted to protect borrowers from high closing costs and abusive practices in the residential housing market. It requires mortgage brokers and/or lenders to provide you with written disclosures before closing, at closing and throughout the term of the mortgage loan. RESPA's disclosures specifically concern closing costs, servicing transfers and escrow accounts.

INFORMATION PROVIDED AT THE TIME OF APPLICATION

Under RESPA, at the time you apply for a mortgage loan, the mortgage broker and/or lender must give you:

1. A booklet containing consumer information about different real estate closing services.
2. A "Good Faith Estimate" (GFE) of closing costs. The GFE lists the charges you likely will pay at closing. The GFE is only an estimate. The actual charges may differ. If the lender requires you to use a particular closing company, the lender must disclose this requirement on the GFE.
3. A "Mortgage Servicing Disclosure Statement" that explains whether the lender intends to service the loan or transfer it to another lender for servicing. It also provides information about complaint resolution.

If the mortgage broker or lender does not provide the required documents at the time of application, the broker and lender must mail them to you within three business days of receiving the loan application. However, if the lender rejects the loan application within three days, the lender is not required to provide these documents.

RESPA - REQUIRED DISCLOSURES BEFORE CLOSING

HUD-1 Settlement Statement. Under RESPA, the lender is required to give you the "HUD-1 Settlement Statement." You can ask to see the "HUD-1 Settlement Statement" one day before closing. The statement is a standard form that shows all charges you and the seller must pay at closing.

Affiliated Business Arrangement Disclosure. In some situations, third parties associated with the settlement of your loan must provide you with an "Affiliated Business Arrangement Disclosure," which describes the business arrangement, if any, between the third party and other services providers related to your mortgage loan.

RESPA - REQUIRED DISCLOSURES AT CLOSING

HUD-1 Settlement Statement. The HUD-1 Settlement Statement shows the actual settlement costs of your loan transaction.

Initial Escrow Statement. The "Initial Escrow Statement" itemizes the estimated taxes, insurance premiums and other charges that will be paid from the escrow account during the first 12 months of the loan. Although the statement usually is provided to you at closing, the lender has 45 days from closing to provide it.

RESPA - REQUIRED DISCLOSURES AFTER CLOSING

Annual Escrow Statement. Loan servicers must give you an "Annual Escrow Statement" once each year. The annual statement summarizes all escrow account deposits and payments during the servicer’s 12-month computation year. It also notifies you of any shortages or surpluses in the account and advises you about the course of action being taken.

Servicing Transfer Statement. A “Servicing Transfer Statement” is required if the servicer sells or assigns the servicing rights of the loan to another servicer. Generally, the loan servicer must notify you 15 days before the effective date of the transfer. The notice must include the name and address of the new servicer, a toll-free telephone number and the date the new servicer will begin accepting payments.

ADDRESSING LOAN SERVICING PROBLEMS UNDER RESPA

RESPA provides you with important protections relating to the servicing of your loan. If you have problems or questions about the servicing of your loan (including escrow account questions), contact your loan servicer in writing. The servicer must acknowledge your complaint in writing within 20 business days of receipt of your complaint.

Within 60 business days of receiving your complaint, the servicer must either resolve the complaint by correcting the account or provide a statement explaining its position. You must continue making your required payments until the complaint is resolved.

You may sue a servicer who fails to comply with certain RESPA provisions. Consult a private attorney about your legal rights and options if a servicer fails to resolve your complaint.

FILING RESPA COMPLAINTS

The Department of Housing and Urban Development (HUD) has authority to enforce certain RESPA provisions. For example, HUD can impose a civil penalty on loan servicers who do not submit initial or annual escrow account statements to borrowers.

If you believe a violation of RESPA has occurred, you can file a written complaint with HUD, explaining the violation and identifying the violators by name, address and phone number. Provide your name and phone number for follow-up questions from HUD. Send your complaint to:

> Director, Office of RESPA and Interstate Land Sales
> US Department of Housing and Urban Development
> Room 9154
> 451 7th Street SW
> Washington, DC 20410

The Idaho Department of Finance also enforces certain provisions of RESPA under the Idaho Residential Mortgage Practices Act. Contact the department to determine whether it can address your complaint. The department's website address is finance.idaho.gov.

MORTGAGE FRAUD

WHAT IS MORTGAGE FRAUD?

Mortgage fraud is a broad term. Generally, mortgage fraud occurs when a participant in a mortgage transaction misleads the borrower or the lender or both. Often, the borrower, seller, mortgage broker or appraiser intentionally misstates, misrepresents or omits information the lender or underwriter relies upon in deciding whether to fund, purchase or insure a mortgage.

APPRAISAL FRAUD

Appraisal fraud occurs when an appraiser misrepresents the value of a property. The appraiser may encounter pressure from a party associated with a mortgage transaction to misstate the value or may receive a financial benefit for overstating a property's value.

Borrowers, eager to obtain the "most home" at the "best terms," may fail to recognize the harm a misleading appraisal causes. When a home is overvalued, you end up in a financial hole when it comes time to refinance or sell.

A federal regulation sets standards for appraisers and other persons engaged in valuating residences. The rule prohibits undue influence on appraisers, the mischaracterization of the value in appraisals and certain appraiser conflicts of interest. To avoid such conflicts, stringent requirements apply to lenders that employ in-house appraisers or valuators.

How Can You Avoid Appraisal Fraud?

- **Verify the Appraiser's License.** When you buy or refinance your home, it is important to select a licensed, experienced appraiser. Idaho designates three types of "real estate appraisers," all of whom are licensed based on their education, experience and the types of property they appraise. To check an appraiser's licensing status, visit www.ibol.idaho.gov.
- **Request Written Documentation.** You should request documentation of the appraisal, including all information regarding recent comparable sales of similar homes in the area.
- **Obtain a "Ballpark" Appraisal Value.** Although you should never rely solely on a "ballpark" appraisal to determine your home's value, you can obtain

approximate appraisal values from various websites and compare those values with the actual appraisal. You also can search for property values on the county assessor's website in some Idaho counties.

- **Ask Questions.** Ask the appraiser questions if you are unsure about the results of an appraisal or if you need clarification of certain terms or data. You should not feel pressured to use another party's appraiser.

BAIT AND SWITCH SCHEMES

In a bait and switch scheme, the lender or mortgage broker offers a certain set of loan terms in the beginning but pressures you to accept different and less favorable terms or charges when it is time to complete the transaction.

How Can You Avoid Bait and Switch Schemes?

Being aware that bait and switch schemes exist helps you know when to walk away from a transaction. You should never feel pressured to accept unfavorable terms that are different from the terms you originally accepted. Read every document that you sign and ask questions about anything you do not understand or that appears to be wrong.

BUILDER-BAILOUT SCHEMES

Due to rising inventory and decreasing demand, builders sometimes offer financial incentives to buyers but do not include these incentives in the loan documents. In a common scenario, a builder lists a $200,000 home for an inflated price of $230,000 and offers you a "no down-payment" incentive. Believing the builder paid the $30,000, the lender approves a $200,000 loan. Both you and the lender believe the home is being sold with $30,000 in equity.

However, the lender actually funded the entire value ($200,000) of the home that has no equity.

How Can You Avoid Builder-Bailout Schemes?

You can avoid builder-bailout schemes by requiring builders to disclose all incentives in writing and by obtaining an appraisal from a reputable appraiser.

EQUITY STRIPPING

Equity stripping occurs when the lender approves a home equity loan based on the amount of equity in a home rather than on factors indicating a borrower's ability to repay the loan, such as income and other debt obligations. If you cannot afford to make the payments, you may lose your home – along with all of the equity. Failing to make the monthly payments damages your credit rating, as well.

How Can You Avoid Equity Stripping?

Credit restrictions and rising foreclosure rates prevent lenders from approving high-risk loans, which include adjustable interest rate mortgages. Lenders must obtain documentation of your income and your debts before approving a home equity loan. Accepting a loan where your monthly housing payment exceeds 30% of your monthly gross income is a financial risk. A lender's willingness to loan you money does not mean you can afford the payments. The extra money you receive from a home equity loan can be very costly in the long run if the loan has a high interest rate and your income is insufficient to make the payments.

DECEPTIVE LOAN SERVICING

Deceptive loan servicing includes several unlawful practices, such as the servicer's failure to post payments upon receipt, charging you for unnecessary insurance and collecting unauthorized fees. Disreputable servicers engage in abusive collection practices and report inaccurate information to credit reporting agencies, harming your credit rating.

How Can You Avoid Deceptive Loan Servicing?

Diligently review your mortgage statements for possible inaccuracies. If a servicer is charging questionable fees or is imposing late charges for payments you made on time, you should question the servicer about its practices and demand documentation to verify that the fees or charges are lawful. If the servicer ignores your concerns, you should speak to an attorney about possible legal remedies.

HOME EQUITY LINES OF CREDIT (HELOC)

Lenders aggressively market Home Equity Lines of Credit as an easy and inexpensive way to get cash fast. HELOCs differ from normal home equity loans because you borrow against a line of credit over a period of time. You write checks or use a credit card to access the credit line.

HELOCs are vulnerable to identity thieves because the line of credit remains open over an extended period, and the account balance may not be verified on a regular basis. Scammers, posing as customers, establish HELOC Internet accounts and then use sophisticated tactics, such as rerouting telephone calls, to manipulate the customer verification process.

How Can You Guard Against HELOC Fraud?

Shop with different lenders to find the best loan terms and interest rates. Visit the lender's physical location (i.e., a bank or credit union). Do not respond to an unsolicited e-mail message or advertisement. If you shop the Internet, do so with great caution and take steps to verify that the lender is legitimate and holds the proper license. Consult a trusted financial advisor or an attorney before signing any loan documents.

IDENTITY THEFT

Identity theft involves stealing another person's identity in order to obtain a mortgage loan. Identity thieves drain home equity lines of credit and steal the identities of appraisers in order to make false valuations.

How Can You Guard Against Identity Theft?

You cannot completely control whether you become a victim of identity theft. However, you can take these steps to minimize your risk.

- Review your bank and credit card statements every month. If a statement contains suspicious activity, notify your bank, your credit card company and your lender immediately.
- Never provide personal information, such as your bank or credit card account numbers or your Social Security number over the phone, through the mail or on the Internet if a business or individual initiates the contact. Always verify the identity of any entity or person before sending personal information.
- Deposit all outgoing mail in a secure post office collection box. Never mail personal information from an unlocked mailbox or from work.
- Keep Social Security cards in a locked container. Never keep them in your wallet or purse. Carry with you only necessary identification, such as your driver's license and one credit card.
- Maintain current security software on all computers with Internet access and use only secure websites.

Never open e-mail or attachments from unknown individuals. Program computers to request a password before anyone is allowed to use it. Use a "wipe" program to scrub the hard drive of a computer before recycling it.

- For additional information about preventing identity theft, read the Attorney General's publication Identity Theft available at www.ag.idaho.gov or by calling the Consumer Protection Division.

INSURANCE PACKING

At closing, a lender may add additional insurance or other fees to a loan without disclosing the extra costs or explaining the purpose of the insurance or the fees. You may be hesitant to object to the undisclosed fees for fear you will lose the loan. Do not let that stop you from asking questions and clarifying anything you do not understand. The lender also may imply that the loan "comes with" the insurance or that the insurance is mandatory.

Private mortgage insurance (PMI) is insurance that lenders require from most homebuyers who obtain loans for more than 80% of the home's value. In other words, if you make less than a 20% down payment, you typically must purchase this insurance. PMI protects a lender against loss if you default on the mortgage loan and enables you to purchase a home with as little as a 3% to 5% down payment.

How Can You Avoid Insurance Packing?

Carefully read your loan documents before signing them. Question every unknown fee that the lender never mentioned during the initial approval process. It is worth the delay to avoid paying for something that you do not need, even if the lender says the paperwork will need to be redone.

Canceling Private Mortgage Insurance

The federal Homeowner's Protection Act (HPA) allows you to request cancellation of PMI when your loan balance equals 80% of your home's original purchase price or appraised value, whichever is less. To request cancellation, you must have a good payment history and may have to provide proof that your home's value has not declined below its original value. The HPA only applies to certain residential mortgages, so check with your lender to determine whether the HPA applies to your loan.

DECEPTIVE ADVERTISING

Be wary of offers of unusually low interest rates or payments. Many are deceptive because they may not include important terms and conditions.

EXAMPLE OF A DECEPTIVE AD:

MORTGAGE LOANS!

Low Fixed Rate!
Very Low Payments and Rates!
Buy a $300,000 Home for Only $900 a Month!

“Low Fixed Rate!” and “Very Low Rates!”

The word “rate” usually refers to the “interest” rate or the “payment” rate. The “interest rate” is the rate used to calculate the amount of interest you owe to the lender each month. Ads that tout a “fixed” rate may not disclose how long the rate will remain “fixed.” In some cases, the rate may be fixed for only 30 days.

The “payment rate” is the rate used to calculate your monthly payment. Some offers advertise a low payment rate without disclosing that it applies for only a short time, and the payment will drastically increase later to an amount you may not be able to afford. If the payment rate is less than the interest rate, the payment will not cover the interest due. This is called “negative amortization” and means that the loan balance will increase because the lender adds the unpaid interest to the balance. Under these terms, you may never be able to pay off the loan.

“Very Low Payment!” and “Pay Only $900 per Month!”

Ads quoting a very low payment may refer to interest-only (I/O) loans. If you take out an I/O loan, your monthly payment covers only the interest on the loan and does not reduce the principal. I/O loans are usually for only a short period, such as one to five years. Ads with “teaser” rates or payments do not disclose that the rate or payment is for a very short introductory period and that, when the introductory period ends, the monthly payments will increase substantially.

QUESTIONS YOU SHOULD ASK

When applying for a mortgage loan, ask these questions:

- What is the required down payment amount?

- What is the annual percentage rate (APR)?
- Will the interest rate change? If so, when and how?
- What will the monthly payment be? Will it increase? When?
- Does the monthly payment include an escrow amount to pay for property taxes and homeowners insurance?
- How many years will it take to pay off the loan?
- Is private mortgage insurance (PMI) required? How much will it cost each month? Will you notify me when such insurance is no longer required?
- What fees and other charges are required?
- Will any fees be paid to the mortgage broker by the mortgage lender in the form of "yield spread premium?" If so, ask how this affects the interest rate of the loan and how it would impact you.
- Is there a prepayment penalty if I refinance or pay off the loan early?
- Who will service the loan?
- Will the loan be sold in the future?
- What happens if I can't afford the payment in the future?

You, as a consumer, are ultimately purchasing the total loan and you are paying for all services needed to create the loan. All of the broker's compensation is paid by you in the form of fees or points, directly or by addition to the principal, or is derived from the interest rate on the loan. It is essential that you, as a borrower, have a complete understanding of all fees associated with a loan, whether direct or indirect. The Idaho Department of Finance can assist you with an explanation of indirect fees associated with a mortgage loan.

Never feel pressured to sign a document you don't understand. The title agent and realtor might rush you through the closing process, telling you to sign the documents now and read them later. Slow down! Ask questions! You are signing legally binding contracts that will affect your life for decades to come. If you don't know why you have to sign a particular document or don't understand every term in the document, do not sign it! Ask questions and get the information you need first before signing. You can walk away from a closing if you disagree with the terms of the agreement, despite what the title agent or realtor might tell you.

IDAHO MORTGAGE FRAUD LAWS

IDAHO CONSUMER FORECLOSURE PROTECTION ACT

Recognizing the damage that fraudulent mortgage rescue companies cause homeowners, the Idaho Legislature enacted the Idaho Consumer Foreclosure Protection Act. The Act requires certain businesses to include written disclosures in certain contracts with you if you are facing foreclosure on your home.

Contracts must include a notice informing you about the consequences of entering into a foreclosure rescue contract. The notice must be printed in 12-point bold type on 8½" x 11" paper. The notice provides information about other resources you can consult and informs you that you have a right to cancel the contract within five days of signing it. For detailed information about the law and copies of the required notices, visit www.ag.idaho.gov.

IDAHO CONSUMER PROTECTION ACT AND RULES

Title 48, Chapter 6, of the Idaho Code and the rules enacted under it prohibit unfair or deceptive acts or practices in the conduct of trade or commerce within the state. For example, companies must disclose all material terms and conditions of an offer and must be able to substantiate the information in their advertisements. Also, they must not engage in bait-and-switch activities.

The Attorney General's Enforcement Authority

The Attorney General is authorized to enforce the Idaho Consumer Protection Act and the Idaho Rules of Consumer Protection. The Act authorizes the Attorney General to file an action against a business or an individual if the Attorney General has reason to believe that the business or individual violated the Act or the Rules. In his lawsuit, the Attorney General can request that the court, among other things:

- Declare that the defendant violated the Act;
- Enjoin the defendant from doing business in Idaho;
- Revoke the defendant's license to practice or do business in Idaho;
- Order the defendant to pay restitution to injured consumers;
- Order the defendant to pay civil penalties of up to $5,000 for each violation of the Act; and
- Order the defendant to pay the Attorney General's fees and costs.

The Attorney General's Consumer Protection Division accepts complaints from Idaho consumers or out-of-state consumers complaining about an Idaho business. The Attorney General offers an informal and voluntary dispute resolution process for Idaho consumers whereby the Attorney General forwards the complaint to the business for a written response within 21 days. If the Attorney General receives a response from the business, he will send it to the consumer.

The Attorney General cannot force a business to respond to or resolve a complaint. However, the Attorney General has found that, in the past, communication from his office helps facilitate a more open and productive discussion between the parties, thereby bringing about a successful resolution.

Complaint forms are available at www.ag.idaho.gov or by calling the Attorney General's Consumer Protection Division.

IDAHO CODE § 48-608: PRIVATE CONSUMER RIGHTS

Voiding an Unlawful Contract

Idaho Code § 48-608 allows you, as a consumer, to treat any agreement, including a written contract, as voidable if you lose money or property because of another's violation of the Consumer Protection Act. This means you can cancel a contract with a business if the business engages in a deceptive act or practice that causes you to lose money or property. However, to prevent a legal action against you for canceling a lawful contract, you should consult with a private attorney before you void a contract.

Filing a Private Lawsuit

You also have a right to file an individual or class action against a business for deceptive acts and practices, including misleading advertising. In a lawsuit under Idaho Code § 48-608, you can ask the court to order payment of restitution and, in certain situations, punitive damages.

Idaho Code § 48-608(2) allows elderly or disabled persons to seek a higher penalty against an alleged violator of the Act. If the court determines that the defendant had reason to know or should have known that the victim was an elderly or disabled person and that the defendant caused the victim a certain amount of injury, the victim can recover $15,000 or triple his actual damages, whichever is greater.

For purposes of this section only, an elderly person is defined as a person aged 62 or older. A disabled person is someone who suffers from a physical, mental or emotional impairment that substantially limits a major life activity.

Speak with a private attorney for additional information about the Consumer Protection Act and whether it applies to your situation. The Attorney General cannot give you legal advice or recommend a course of action.

IDAHO RESIDENTIAL MORTGAGE PRACTICES ACT

The Idaho Department of Finance enforces the Idaho Residential Mortgage Practices Act (Title 26, Chapter 31, Idaho Code). The Act applies to mortgage brokers, lenders and mortgage loan originators and requires them to obtain a license before operating in the state. The Act incorporates relevant federal laws, including the Real Estate Settlement Procedures Act and the Home Ownership Equity Protection Act. The Department of Finance has authority to bring legal actions against those who violate the Act or federal mortgage laws. If you believe a mortgage broker, lender or mortgage originator violated the Act, you should file a consumer complaint with the Department of Finance, which accepts complaints by mail or on its website at finance.idaho.gov.

Who Regulates My Servicer?

Financial regulation is complicated and determining which government agency is responsible for regulating a certain loan servicer can be difficult. The fastest way to find out what government agency regulates your servicer is to call your servicer and ask. You can visit www.ffiec.gov to search for your servicer's federal regulator, if applicable. Contact the Idaho Department of Finance to find out if the Department licenses the servicer.

Consumer Financial Protection Bureau

The 2010 Wall Street Reform and Consumer Protection Act created the Consumer Financial Protection Bureau, a federal agency that has primary supervisory authority over banks, credit unions and financial companies. The CFPB enforces federal consumer financial laws and accepts consumer complaints regarding violations of the laws and rules it enforces. For more information about the CFPB and its mission, visit its website at www.consumerfinance.gov.

APPENDIX A

RESOURCES

The following resources are provided for your convenience and do not constitute an exhaustive list of available resources. If you have questions about buying a home or any of your legal rights and options, speak with a HUD-approved housing counselor, an attorney and/or an experienced, trusted financial advisor.

Consumer Advocacy

Better Business Bureau (E. Idaho)
453 River Parkway
Idaho Falls, ID 83402-3615
(208) 523-9754
www.idahofalls.bbb.org

Better Business Bureau (N. Idaho)
152 S. Jefferson, Ste. 200
Spokane, WA 99201-4352
(509) 455-4200
www.spokane.bbb.org

Better Business Bureau (S.W. Idaho)
1200 N Curtis Rd.
Boise, ID 83706
(208) 342-4649
www.boise.bbb.org

National Association of Consumer Advocates
1730 Rhode Island Ave. NW, Ste. 710
Washington, DC 20036
(202) 452-1989
www.naca.net

Consumer Credit

Annual Free Credit Report
(Available free once per year)
(877) 322-8228
www.annualcreditreport.com

Equifax
Office of Consumer Affairs
PO Box 105851
Atlanta, GA 30374
(800) 685-1111
www.equifax.com

Experian
National Consumer Assistance Center
PO Box 2104
Allen, TX 75013-9504
(888) 397-3742
www.experian.com

National Foundation for Credit Counseling
2000 M St. NW, Ste. 505
Washington, DC 20036
(800) 388-2227
www.nfcc.org

TransUnion, LLC
PO Box 1000
Chester, PA 19022
(800) 888-4213
www.transunion.com

Consumer Education

Center for Responsible Lending
1330 Broadway, Ste. 604
Oakland, CA 94612
(510) 379-5500
www.responsiblelending.org

Consumer Federation of America
1620 I St .NW, Ste. 200
Washington, DC 20006
(202) 387-6121
www.consumerfed.org

Consumer Financial Protection Bureau
1700 G St., NW
Washington, DC 20552
(855) 411-2372
www.consumerfinance.gov

Consumers Union
101 Truman Ave.
Yonkers, NY 10703-1057
(914) 378-2000
www.consumersunion.org

Mortgage Asset Research Institute
11654 Plaza America Dr.
Box 553
Reston, VA 20190
(866) 676-6274
www.marisolutions.com

Mortgage Electronic Registration System
1818 Library St., Ste 300
Renton, VA 20190
(800) 646-6377
www.mersinc.org

National Consumer Law Center
7 Winthrop Square
Boston, MA 02110
(617) 542-8010
www.consumerlaw.org

U.S. Foreclosure Network
14471 Chambers Rd., Ste. 260
Tustin, CA 92780
(800) 635-6128
www.usfn.org

Legal Assistance

Idaho State Bar Lawyer Referral Service
525 W. Jefferson St.
Boise, ID 83701
(208) 334-4500
isb.idaho.gov

Boise Legal Aid
310 N. 5th St.
PO Box 913
Boise, ID 83702
(208) 342-0106
www.idaholegalaid.org

Caldwell Legal Aid
1104 Blaine St.
Caldwell, ID 83605
(208) 454-2591

Coeur d'Alene Legal Aid
410 Sherman Ave., No. 303
Coeur d'Alene, ID 83814
(208) 667-9559

Idaho Falls Legal Aid
482 Constitution Way, Ste. 101
Idaho Falls, ID 83402
(208) 524-3660

Lewiston Legal Aid
633 Main St., Ste.103
Lewiston, ID 83501
(208) 743-1556

Pocatello Legal Aid
150 S. Arthur, No. 203
Pocatello, ID 83204
(208) 233-0079

Twin Falls Legal Aid
475 Polk, Ste. 4
Twin Falls, ID 83301
(208) 734-7024

Mortgage Financing

Federal National Mortgage Association (Fannie Mae)
3900 Wisconsin Ave. NW
Washington, DC 20016-2806
(800) 732-6643
www.fanniemae.com

Federal Home Loan Mortgage Corp. (Freddie Mac)
8200 Jones Branch Dr.
Freddie Mac Campus
(800) 424-5401
McLean, VA 22602-3110
www.freddiemac.com

Gov't National Mortgage Association (Ginnie Mae)
451 7th St. SW, Room B-133
Washington, DC 20410
(202) 708-1535
www.ginniemae.gov

Mortgage Bankers Association
1717 Rhode Island Ave, NW, Ste. 400
Washington, DC 20036
(202) 557-2700
www.mbaa.org

Mortgage Rate Information
(561) 630-2400
www.bankrate.com

U.S. Department of Veterans Affairs
Consumer Affairs Service
810 Vermont Ave. NW
Washington, DC 20420
(800) 827-1000
www.va.gov

Mortgage Insurers

Mortgage Guaranty Insurance Corp.
PO Box 488
Milwaukee, WI 53201
(800) 558-5500
www.mgic.com

PMI Group, Inc.
U.S. Headquarters - PMI Plaza
3003 Oak Rd.
Walnut Creek, CA 94597
(800) 288-1970
www.pmigroup.com

Government Agencies

Consumer Financial Protection Bureau
1700 G St., NW
Washington, DC 20552
(855) 411-2372
www.consumerfinance.gov

Federal Reserve Board
Consumer Help
PO Box 1200
Minneapolis, MN 55480
(888) 851-1920
www.federalreserveconsumerhelp.gov

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Ave. NW
Washington, DC 20580
(877) 382-4357
www.ftc.gov

Financial Crimes Enforcement Network
General Inquiry Line
U.S. Department of the Treasury
(703) 905-3591
www.fincen.gov

Idaho Attorney General's Office
Consumer Protection Division
954 W. Jefferson, 2nd Floor
PO Box 83720
Boise, ID 83720-0010
(208) 334-2424
(800) 432-3545
www.ag.idaho.gov

Idaho Department of Finance
800 Park Ave., Ste. 200
PO Box 83720
Boise, Idaho 83720-0031
(208) 332-8000
finance.idaho.gov

Idaho Housing & Finance Association
565 W. Myrtle
Boise, ID 83702
(877) 888-3135
www.ihfa.org

National Credit Union Administration
1775 Duke St.
Alexandria, VA 22314-3428
(800) 755-1030
www.ncua.gov

Special Inspector General of the Troubled Asset Relief Program
1500 Pennsylvania Ave. NW
Ste. 1064
Washington, D.C. 20220
(877) 744-2009
www.sigtarp.gov

U.S. Comptroller of the Currency
Customer Assistance Group
1301 McKinney St., Ste. 3450
Houston, TX 77010
(800) 613-6743
www.occ.treas.gov

U.S. Housing and Urban Development

800 Park Blvd., Plaza IV, Ste. 220
Boise, ID 83712-7743
(208) 334-1990
www.hud.gov

Senior Citizens

AARP of Idaho
3080 E. Gentry Way, Ste. 100
Meridian, ID 83642
(866) 295-7284
www.aarpid.org

Idaho Commission on Aging
341 W. Washington St.
Boise, ID 83702
(208) 334-3833
www.idahoaging.com

Idaho Senior Legal Hotline
(866) 345-0106

APPENDIX B

GLOSSARY OF MORTGAGE TERMS

Adjustable rate mortgage (ARM). A mortgage loan in which the interest rate can be adjusted at specified intervals. For example, with a 2/28 ARM loan, the interest rate is fixed at a relatively low or "teaser" rate for two years and then resets to a higher interest rate at the beginning of the third year.

Amortization. The gradual repayment of a mortgage loan through installment payments. An "amortization schedule" shows the amount of each payment applied to the principal and the amount applied to the interest.

Annual percentage rate (APR). The interest rate on a loan.

Appraisal. A written estimate of the property's market value at a certain point in time. Idaho licenses three different types of appraisers.

Arrearage. The amount of money that is unpaid and overdue on a mortgage loan.

Assumption. A third party takes over the payments of a homeowner's mortgage loan. The homeowner usually quitclaims the home to the third party, thereby transferring ownership of the property to the third party. Many mortgage contracts specifically prohibit assumptions without the lender's consent.

Balloon payment. A payment that is larger than the normal payment amount and usually is paid at the end of the mortgage payment term in order to pay off the loan. Federal and state laws prohibit certain loans from requiring a balloon payment.

Beneficiary. The person named in a trust deed as the person for whose benefit a trust deed is given, or his successor in interest.

Capitalization. Adding unpaid interest to the mortgage loan principal, which increases the principal amount of the loan and its total cost.

Closed-end loan. A loan with a fixed term or end date.

Collateral. The property a borrower pledges to secure a loan. A creditor usually can take and sell the collateral if the borrower fails to repay the loan.

Conforming fixed rate loan. A conventional loan that complies with the guidelines established by Fannie Mae and Freddie Mac and has a fixed interest rate throughout the life of the loan.

Convertible ARM. An adjustable rate mortgage loan that can be converted into a fixed-rate mortgage during a certain time period.

Cure a default. If a borrower fails to make the required payments on a loan, the borrower is in default. The process by which the borrower catches up on the missed payments is referred to as curing the default or reinstatement.

Debt-to-income ratio. The maximum percentage amount of a borrower's gross monthly income that can be used for a monthly house payment plus all other debts.

Deed. A legal document by which title to property is transferred.

Deed-in-lieu of foreclosure. The lender accepts the deed to the borrower's home so that the borrower and lender can avoid foreclosure proceedings.

Default. When a borrower fails to make the required payments on a loan.

Deficiency judgment. A personal judgment against the borrower for the amount that remains due on the mortgage loan after the home is sold at the foreclosure sale. In other words, if the mortgage lender is unable to sell the home for at least the remaining balance of the loan, the lender can force the borrower to pay the difference between the loan balance and the selling price.

Deferred payments. Loan payments that are postponed as part of the loan modification or workout process to avoid foreclosure.

Delinquency. Failure to make a loan payment when it is due. A loan usually is considered delinquent when it is 30 or more days past due.

Due-on-demand clause. A term in a mortgage agreement that allows the creditor to terminate the loan before the original end date and require the borrower to repay the entire outstanding balance.

Due-on-sale clause. A term in a mortgage agreement that requires the loan to be paid in full if the property is sold or transferred.

Earnest money. Money that the buyer pays to the seller when an offer to purchase is made. The money is held in the real estate broker's trust account until closing. It then is credited to the buyer's funds on the HUD-1 settlement statement.

Equity. The amount of cash a homeowner would keep if the owner sold his or her home and paid off all of the liens. For example, if the owner's home is worth $200,000, but the owner owes the lender $100,000 on the first mortgage loan and $25,000 on a home equity loan, the owner has only $75,000 in equity ($200,000 - $100,000 - $25,000 = $75,000).

Equity stripping. Mortgage refinance terms that maximize the lender's profit by increasing the borrower's loan balance and decreasing the borrower's equity in the property. The most common equity stripping loan term is charging excessive fees that are financed as part of the new loan.

Escrow account. A special account where a portion of the borrower's monthly payments are held and then used to pay home-related obligations like property taxes, homeowner association dues and insurance.

Escrow review. A periodic review of an escrow account to make sure it contains sufficient funds to pay the taxes and insurance on a home when they are due.

Eviction. A legal process that terminates a tenant's right to occupy a home.

Forbearance. An agreement between the borrower and the lender allowing the borrower to stop making the required mortgage loan payments for a certain amount of time.

Foreclosure. A legal process that results in the forced sale of a home because the borrower failed to make the required loan payments.

Good faith estimate. A written approximation of the costs and fees expected to be incurred in obtaining a loan.

Grace period. The time between the date on which a payment is due and the date on which a late fee is charged.

Hardship letter. A letter that the borrower writes to the mortgage loan servicer explaining what caused the borrower to fall behind in making the monthly mortgage payments. The borrower must have a legitimate reason, such as a job loss, a death in the family, an illness or disability or another acceptable reason. The hardship letter is one step in the workout process.

Hazard insurance. Insurance required by mortgage contracts to pay for the loss of or damage to the property.

Home equity loan. Any mortgage loan that is used for a purpose other than to purchase a home.

Investment property. Property that is not a primary residence and that is intended to generate money, appreciate value or obtain certain tax benefits.

Lender placed insurance. Insurance that a lender places on a property to protect its interest in the collateral that secures the loan.

Lis pendens. A legal notice that warns the public that a piece of property is subject to a lawsuit and that any interest in the property that is obtained while the lawsuit is pending is subject to the lawsuit's outcome.

Loan modification. An adjustment or compromise of an existing residential mortgage loan. (Excludes refinancing transactions.)

Loan modification activities. Engaging in or offering to engage in effecting loan modifications in Idaho.

Loan modification fee. Any item of value including, but not limited to, goods or services, charged or collected in connection with loan modification activities.

Loan-to-value ratio (LTV). A percentage comparison between the mortgage amount and the actual value (or selling price) of the property. For example, if a home has a market value of $100,000 and a $70,000 loan, the loan-to-value ratio is 70%.

Mortgage. An agreement in which a property owner grants a creditor the right to satisfy a debt by selling the property in the event of a default.

Mortgage broker. An individual or a company that arranges financing for a home loan.

Mortgage loan originator. A person who, while acting on behalf of a mortgage broker or lender, solicits or receives residential mortgage loan applications, or offers or negotiates terms of residential mortgage loans. Idaho law requires that mortgage loan originators be licensed by the Idaho Department of Finance.

Negative amortization. Occurs when a borrower's payments do not cover the amount of interest accruing on a loan.

Open-ended loan. Commonly known as "revolving credit." Payments on the loan replenish credit available to the consumer. Credit cards are an example of open-ended loans.

Origination fee. A fee paid to a lender for processing a loan application.

Principal. The original amount the consumer borrowed. It does not include interest or fees on the loan.

Principal balance. The amount still owed on the loan, not including interest and fees.

Prepayment penalty. A fee that may be charged by a lender if the borrower pays the loan off early.

Private mortgage insurance (PMI). Insurance, provided by private insurers, that protects lenders against loss if a borrower defaults on the loan.

Quitclaim deed. A legal document that releases a homeowner from any interest in his or her home and transfers the home "as is" to another.

Rate lock. While a mortgage loan application is pending, a rate lock secures the interest rate at a specific number for a specified amount of time. Some lenders require a fee from the borrower to "lock in" a rate.

Reamortization. A recalculation of a loan payment by a lender with loan terms that are different from the original loan terms. For example, a lender may modify a borrower's 10-year loan after the borrower has paid for five years in order to lower the borrower's payments.

Redemption. The legal right of homeowners to buy back their foreclosed properties by paying the balance owed on their delinquent mortgages, as well as any interest and fees.

Refinance. The process of paying off a loan with a new loan.

Reverse mortgage. A refinancing option available to homeowners with substantial equity in their homes. Money is drawn based on the property's value without an immediate repayment obligation because the lender expects repayment by sale of the property in the future.

Securitization. The process by which loans are pooled together and the interests in the pool are sold to investors.

Servicer. A business, often a bank or mortgage company, that accepts and records mortgage payments from borrowers, negotiates workout plans and supervises the foreclosure process.

Short sale. A sale in which the lender allows the homeowner to sell his or her home for less than the amount owed on the mortgage loan. The lender accepts the sale proceeds as full payment of the mortgage debt.

Subprime loans. Types of loans that are designed to provide credit to borrowers with no credit history or past credit problems. Subprime loans have more expensive terms, such as higher interest rates and fees, than conventional loans.

Title. The documented evidence that a person or an organization owns a piece of real property.

Trust deed. A deed conveying real property to a trustee in trust to secure performance of an obligation of the grantor to the beneficiary.

Trustee. A person to whom legal title to real property is conveyed by a trust deed or by his successor in interest.

Underwriting. The process of applying lending standards to the qualifications of a particular loan applicant.

Valuation. The process of estimating the value of a piece of property, normally done through an appraisal.

Variable rate mortgage. A mortgage loan where the interest rate changes over time and can affect the amount of the borrower's monthly payments.

Work out. A term used to describe the informal process for restructuring a loan in order to avoid foreclosure.

Yield spread premium (YSP). A payment a mortgage broker receives from a mortgage lender when the mortgage broker sells a borrower a mortgage carrying an interest rate that is higher than the lowest rate for which a borrower actually qualifies. One use of a yield spread premium is to reduce the mortgage's upfront costs. The larger the yield spread, the more a mortgage broker earns, which can tempt a mortgage broker to steer borrowers to higher interest loans.

Consumer Protection Manuals

- Buying a Home
- Charitable Giving
- Credit and Debt
- Foreclosure Prevention and Foreclosure Scams: How to Tell the Difference
- Guidelines for Motor Vehicle Advertising in Idaho
- Idaho Consumer Protection Manual
- Idaho Lemon Law
- Identity Theft
- Internet Lingo Dictionary
- Internet Safety
- Landlord and Tenant Guidelines
- A Parents' Guide to Social Networking Websites
- Pyramids, Gift Schemes & Network Marketing
- Residential Construction
- Rules of Consumer Protection
- Rules of Telephone Solicitations
- Senior Citizens Manual
- Service on an Idaho Nonprofit Board of Directors
- Telephone Solicitation
- Young Adult Handbook

Funds collected by the Attorney General's Consumer Protection Division as the result of enforcement actions paid for these pamphlets. No tax monies were used to pay for these publications.

The Consumer Protection Division enforces Idaho's consumer protection laws, provides information to the public on consumer issues, and offers an informal mediation process for individual consumer complaints.

If you have a consumer problem or question, please call (208) 334-2424 or in-state toll-free (800) 432-3545. TDD access and Language Line translation services are available. The Attorney General's website is available at www.ag.idaho.gov.